

MARTENSDALE-ST.MARYS COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

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Martensdale-St. Marys Community School District

Officials

| <u>Name</u>  | <u>Title</u>     | <u>Term Expires</u> |
|--|------------------|---------------------|
| <b>Board of Education</b><br><b>(Before September 2007 Election)</b> |                  |                     |
| A. Velvet Van Hoose  | President        | 2009                |
| Patrick Conner   | Vice President   | 2008                |
| John Della Vedova  | Board Member     | 2009                |
| Scott Anderson   | Board Member     | 2008                |
| Jim Weaver   | Board Member     | 2007                |
| <b>Board of Education</b><br><b>(After September 2007 Election)</b>  |                  |                     |
| A. Velvet Van Hoose  | President        | 2009                |
| Scott Anderson   | Vice President   | 2008                |
| John Della Vedova  | Board Member     | 2009                |
| Patrick Conner   | Board Member     | 2008                |
| Cathy Seymour  | Board Member     | 2010                |
| <b>School Officials</b>  |                  |                     |
| Jean Peterson  | Superintendent   | 2008                |
| Jane Cassidy   | Business Manager | 2008                |
| Brick, Gentry, Bowers, Swartz,<br>Stoltze, Schuling, & Levis, PC     | Attorney         | 2008                |

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Martensdale-St. Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District, Martensdale, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Martensdale-St. Marys Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 18, 2009 on our consideration of the Martensdale-St. Marys Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Martensdale-St. Marys Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson PC". The signature is stylized and cursive.

NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2009

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Martensdale-St. Marys Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2008 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,563,750 in fiscal 2007 to \$4,836,238 in fiscal 2008, while General Fund expenditures increased from \$4,384,961 in fiscal 2007 to \$4,775,214 in fiscal 2008. The District's General Fund balance was \$397,820 in fiscal 2007 and \$458,844 in fiscal 2008, a 15.34% increase over the prior year.
- The increase in General Fund revenues was attributable to increases in local and state sources in fiscal 2008. The increase in expenditures was due primarily to an increase in negotiated salary and benefits.
- As of June 30, 2008 the District's solvency ratio was 9.03% as compared to 8.46% for the year ended June 30, 2007.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Martensdale-St. Marys Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Martensdale-St. Marys Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Martensdale-St. Marys Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Martensdale-St. Marys Community School District Annual Financial Report***

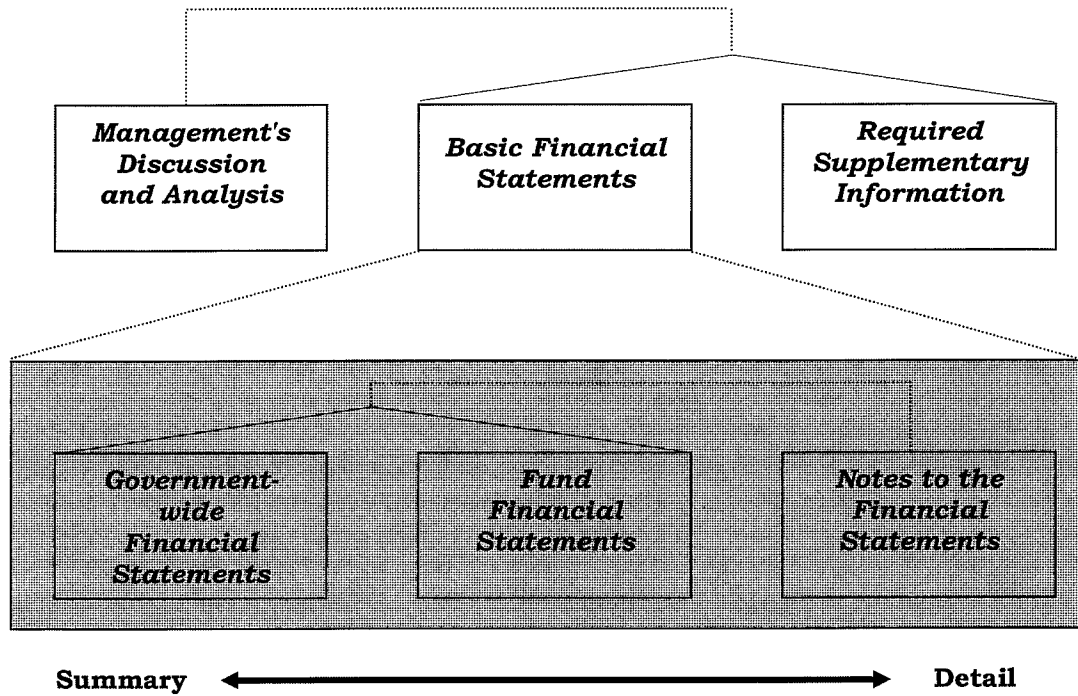


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

**Major Features of the Government-Wide and Fund Financial Statements**

|  | Government-wide Statements   | Fund Statements  |  |   |
|--|--|--|--|---|
|  |  | Governmental Funds   | Proprietary Funds  | Fiduciary Funds   |
| Scope                                  | Entire district (except fiduciary funds)   | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance   | Activities the district operates similar to private businesses, e.g., food service   | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies   |
| Required financial statements          | <ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul> | <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>   | <ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul> | <ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul> |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus  | Modified accrual accounting and current financial resources focus  | Accrual accounting and economic resources focus  | Accrual accounting and economic resources focus   |
| Type of asset/liability information    | All assets and liabilities, both financial and capital, short-term and long-term                               | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included  | All assets and liabilities, both financial and capital, and short-term and long-term   | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can                   |
| Type of inflow/outflow information     | All revenues and expenses during year, regardless of when cash is received or paid                             | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid   | All additions and deductions during the year, regardless of when cash is received or paid   |

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



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The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund, Day Care Fund and the Pre-kindergarten Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3  
Condensed Statement of Net Assets

|  | Governmental<br>Activities |           | Business-type<br>Activities |        | Total<br>School District |           | Total<br>Change |
|--|----------------------------|-----------|-----------------------------|--------|--------------------------|-----------|-----------------|
|  | June 30,                   |           | June 30,                    |        | June 30,                 |           | June 30,        |
|  | 2008                       | 2007      | 2008                        | 2007   | 2008                     | 2007      | 2007-08         |
| Current and other assets                           | \$ 4,404,551               | 4,438,473 | 60,204                      | 38,255 | 4,464,755                | 4,476,728 | -0.27%          |
| Capital assets                                     | 4,066,544                  | 4,136,341 | 36,725                      | 27,692 | 4,103,269                | 4,164,033 | -1.46%          |
| Total assets                                       | 8,471,095                  | 8,574,814 | 96,929                      | 65,947 | 8,568,024                | 8,640,761 | -0.84%          |
| Long-term obligations                              | 2,402,816                  | 2,480,195 | 0                           | 0      | 2,402,816                | 2,480,195 | -3.12%          |
| Other liabilities                                  | 2,800,325                  | 3,180,737 | 17,200                      | 9,076  | 2,817,525                | 3,189,813 | -11.67%         |
| Total liabilities                                  | 5,203,141                  | 5,660,932 | 17,200                      | 9,076  | 5,220,341                | 5,670,008 | -7.93%          |
| Net assets:  |                            |           |                             |        |                          |           |                 |
| Invested in capital assets,<br>net of related debt | 1,716,544                  | 1,676,341 | 36,725                      | 27,692 | 1,753,269                | 1,704,033 | 2.89%           |
| Restricted   | 942,697                    | 709,201   | 0                           | 0      | 942,697                  | 709,201   | 32.92%          |
| Unrestricted                                       | 608,713                    | 528,340   | 43,004                      | 29,179 | 651,717                  | 557,519   | 16.90%          |
| Total net assets                                   | \$ 3,267,954               | 2,913,882 | 79,729                      | 56,871 | 3,347,683                | 2,970,753 | 12.69%          |

The District's combined net assets increased by 12.69%, or \$376,930, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$233,496 or 32.92% over the prior year

Unrestricted net assets – are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$94,198 or 16.90%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 as compared to the year ended June 30, 2007.

Figure A-4  
Changes of Net Assets

|  | Governmental<br>Activities |           | Business-type<br>Activities |         | Total<br>School District |           | Total<br>Change |
|--|----------------------------|-----------|-----------------------------|---------|--------------------------|-----------|-----------------|
|  | June 30,                   |           | June 30,                    |         | June 30,                 |           | June 30,        |
|  | 2008                       | 2007      | 2008                        | 2007    | 2008                     | 2007      | 2007-08         |
| Revenues:  |                            |           |                             |         |                          |           |                 |
| Program revenues:  |                            |           |                             |         |                          |           |                 |
| Charges for services                                     | \$ 678,319                 | 497,756   | 315,389                     | 259,239 | 993,708                  | 756,995   | 31.27%          |
| Operating grants, contributions, and restricted interest | 619,689                    | 585,085   | 68,566                      | 67,722  | 688,255                  | 652,807   | 5.43%           |
| Capital grants, contributions, and restricted interest   | 25,000                     | 0         | 0                           | 0       | 25,000                   | 0         | 100.00%         |
| General revenues:  |                            |           |                             |         |                          |           |                 |
| Local tax  | 1,829,704                  | 1,730,460 | 0                           | 0       | 1,829,704                | 1,730,460 | 5.74%           |
| Local option sales and services tax                      | 293,832                    | 292,761   | 0                           | 0       | 293,832                  | 292,761   | 0.37%           |
| Unrestricted state grants                                | 2,150,147                  | 2,114,618 | 0                           | 0       | 2,150,147                | 2,114,618 | 1.68%           |
| Unrestricted interest                                    | 41,039                     | 85,447    | 0                           | 0       | 41,039                   | 85,447    | -51.97%         |
| Other general revenue                                    | 81,375                     | 28,468    | 0                           | 11,886  | 81,375                   | 40,354    | 101.65%         |
| Total revenues   | 5,719,105                  | 5,334,595 | 383,955                     | 338,847 | 6,103,060                | 5,673,442 | 7.57%           |
| Program expenses:  |                            |           |                             |         |                          |           |                 |
| Governmental activities:                                 |                            |           |                             |         |                          |           |                 |
| Instruction  | 3,325,563                  | 3,022,361 | 107,888                     | 72,795  | 3,433,451                | 3,095,156 | 10.93%          |
| Support services   | 1,595,580                  | 1,551,270 | 637                         | 651     | 1,596,217                | 1,551,921 | 2.85%           |
| Non-instructional programs                               | 0                          | 0         | 252,572                     | 255,157 | 252,572                  | 255,157   | -1.01%          |
| Other expenses   | 443,890                    | 373,820   | 0                           | 0       | 443,890                  | 373,820   | 18.74%          |
| Total expenses   | 5,365,033                  | 4,947,451 | 361,097                     | 328,603 | 5,726,130                | 5,276,054 | 8.53%           |
| Changes in net assets                                    | 354,072                    | 387,144   | 22,858                      | 10,244  | 376,930                  | 397,388   | -5.15%          |
| Beginning net assets                                     | 2,913,882                  | 2,526,738 | 56,871                      | 46,627  | 2,970,753                | 2,573,365 | 15.44%          |
| Ending net assets  | \$ 3,267,954               | 2,913,882 | 79,729                      | 56,871  | 3,347,683                | 2,970,753 | 12.69%          |

Local tax and unrestricted state grants account for 69.59% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 100.00% of the revenue from business type activities.

The District's total revenues were approximately \$6,103,060 of which \$5,719,105 was for governmental activities and \$383,955 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.57% increase in revenues and a 8.53% increase in expenses. The increase in revenues was due to increased in revenues in all areas except unrestricted interest, received by the District during fiscal 2008. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

#### Governmental Activities

Revenues for governmental activities were \$5,719,105 and expenses were \$5,365,033.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

|                  | Total Cost of Services |                  |               | Net Cost of Services |                  |              |
|------------------|------------------------|------------------|---------------|----------------------|------------------|--------------|
|                  | 2008                   | 2007             | Change        | 2008                 | 2007             | Change       |
|                  |                        |                  | 2007-08       |                      |                  | 2007-08      |
| Instruction      | \$ 3,325,563           | 2,866,378        | 16.02%        | 2,201,803            | 2,130,210        | 3.36%        |
| Support services | 1,595,580              | 1,402,458        | 13.77%        | 1,591,738            | 1,397,195        | 13.92%       |
| Other expenses   | 443,890                | 585,689          | -24.21%       | 248,484              | 164,717          | 50.86%       |
| Totals           | <u>\$ 5,365,033</u>    | <u>4,854,525</u> | <u>10.52%</u> | <u>4,042,025</u>     | <u>3,692,122</u> | <u>9.48%</u> |

- The cost financed by users of the District's programs was \$678,319.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$644,689.
- The net cost of governmental activities was financed with \$1,829,704 in local tax, \$293,832 in local option sales and services tax, \$2,150,147 in unrestricted state grants, \$41,039 in interest income, and \$81,375 in other general revenue.

### Business-Type Activities

Revenues of the District's business-type activities were \$383,955 and expenses were \$361,097. The District's business-type activities include the School Nutrition Fund, Day Care Fund and Pre-Kindergarten Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Martensdale-St. Marys Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,422,539, over last year's ending fund balances of a \$1,095,467.

### Governmental Fund Highlights

- The District's improving General Fund financial position from \$397,820 to \$458,844 is the product of many factors:
  - The District saw an increase in General Fund revenues as compared to fiscal 2007; the increase in revenues was more than enough to offset the increase in expenditures thus ensuring the improvement of the General Fund.
  - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
- The Capital Projects Fund balance increased from \$412,134 in fiscal 2007 to \$621,050 in fiscal 2008. Although revenues for the Capital Projects Fund during fiscal 2008 were approximately the same as compared to fiscal 2007, the fund balance was able to increase because fund expenditures including transfers out for fiscal 2008 were approximately one-fourth less as compared to fiscal 2007.

## Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$47,164 at June 30, 2007 to \$60,482 at June 30, 2008, representing an increase of 28.24%. The Day Care Fund net assets increased from \$12,187 at June 30, 2007 to \$12,765 at June 30, 2008, representing an increase of 4.74%. Net assets for the Pre-Kindergarten fund at June 30, 2008 were \$6,482 compared to a deficit balance \$2,480, representing an increase of 361.37%.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Martensdale-St. Marys Community School District amended its annual budget one time to reflect additional expenditures associated with expenditures in all functions.

The District's revenues were \$444,257 more than budgeted revenues, a variance of 7.88%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Initially, total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures as is deemed necessary for each fiscal year. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested \$4,103,269, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$160,134.

The original cost of the District's capital assets was \$6,377,318. Governmental funds account for \$6,289,662 with the remainder of \$87,656 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$0 at June 30, 2007, compared to \$5,311 reported at June 30, 2008. This increase is a result of the increase in construction in progress during the year.

Figure A-6  
Capital Assets, Net of Depreciation

|                            | Governmental<br>Activities |           | Business-type<br>Activities |        | Total<br>School District |           | Total<br>Change |
|----------------------------|----------------------------|-----------|-----------------------------|--------|--------------------------|-----------|-----------------|
|                            | June 30,                   |           | June 30,                    |        | June 30,                 |           | June 30,        |
|                            | 2008                       | 2007      | 2008                        | 2007   | 2008                     | 2007      | 2007-08         |
| Land                       | \$ 110,000                 | 110,000   | 0                           | 0      | 110,000                  | 110,000   | 0.00%           |
| Construction in progress   | 5,311                      | 0         | 0                           | 0      | 5,311                    | 0         | 100.00%         |
| Land improvements          | 68,824                     | 75,647    | 0                           | 0      | 68,824                   | 75,647    | -9.02%          |
| Buildings and improvements | 3,791,210                  | 3,853,811 | 0                           | 0      | 3,791,210                | 3,853,811 | -1.62%          |
| Machinery and equipment    | 91,199                     | 96,883    | 36,725                      | 27,692 | 127,924                  | 124,575   | 2.69%           |
| Total                      | \$ 4,066,544               | 4,136,341 | 36,725                      | 27,692 | 4,103,269                | 4,164,033 | -1.46%          |

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## Long-Term Debt

At June 30, 2008, the District had \$2,402,816 in general obligation and other long-term debt outstanding. This represents a decrease of 3.12% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,350,000 at June 30, 2008.

The District had total outstanding Post Employment Benefits from the General Fund of \$9,861 at June 30, 2008.

The District had total outstanding Early Retirement from the Management Levy Fund of \$42,955 at June 30, 2008.

Figure A-7  
Outstanding Long-Term Obligations

|                          | Total School District |                  | Total Change  |
|--------------------------|-----------------------|------------------|---------------|
|                          | June 30,              |                  | June 30,      |
|                          | 2008                  | 2007             | 2007-08       |
| General Obligation Bonds | \$ 2,350,000          | 2,460,000        | -4.47%        |
| Post Employment Benefits | 9,861                 | 20,195           | -51.17%       |
| Early Retirement         | 42,955                | 0                | 100.00%       |
| Totals                   | <u>\$ 2,402,816</u>   | <u>2,480,195</u> | <u>-3.12%</u> |

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- The voters of Warren and Madison County passed the Local Option Sales and Services Tax for School Infrastructure (SILO) with funding beginning in September 2004. This 1 cent tax on sales and services has greatly benefited the District in maintaining their buildings and purchasing equipment. The funding began in September 2004 and will continue for ten years.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jill Gavin, Business Manager, Martensdale-St. Marys Community School District, Martensdale, Iowa, 50160.

## BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

|   | Governmental<br>Activities | Business-type<br>Activities | Total            |
|---|----------------------------|-----------------------------|------------------|
| <b>ASSETS</b>   |                            |                             |                  |
| Cash and pooled investments:                            |                            |                             |                  |
| ISCAP(Note 4)   | \$ 608,948                 | 0                           | 608,948          |
| Other   | 1,572,189                  | 56,291                      | 1,628,480        |
| Receivables:  |                            |                             |                  |
| Property tax:   |                            |                             |                  |
| Delinquent  | 17,943                     | 0                           | 17,943           |
| Succeeding year   | 1,697,326                  | 0                           | 1,697,326        |
| Income surtax   | 190,047                    | 0                           | 190,047          |
| Accounts  | 163,244                    | 1,688                       | 164,932          |
| Accrued ISCAP interest(Note 4)                          | 9,082                      | 0                           | 9,082            |
| Due from other governments                              | 145,772                    | 0                           | 145,772          |
| Inventories   | 0                          | 2,225                       | 2,225            |
| Capital assets, net of accumulated depreciation(Note 5) | 4,066,544                  | 36,725                      | 4,103,269        |
| <b>TOTAL ASSETS</b>                                     | <b>8,471,095</b>           | <b>96,929</b>               | <b>8,568,024</b> |
| <b>LIABILITIES</b>                                      |                            |                             |                  |
| Accounts payable  | 121,017                    | 1,887                       | 122,904          |
| Salaries and benefits payable                           | 354,330                    | 12,252                      | 366,582          |
| ISCAP warrants payable(Note 4)                          | 607,000                    | 0                           | 607,000          |
| ISCAP interest payable(Note 4)                          | 9,042                      | 0                           | 9,042            |
| ISCAP unamortized premium                               | 3,250                      | 0                           | 3,250            |
| Interest payable  | 8,360                      | 0                           | 8,360            |
| Deferred revenue:                                       |                            |                             |                  |
| Succeeding year property tax                            | 1,697,326                  | 0                           | 1,697,326        |
| Unearned revenue  | 0                          | 3,061                       | 3,061            |
| Long-term liabilities(Note 6):                          |                            |                             |                  |
| Portion due within one year:                            |                            |                             |                  |
| General obligation bonds payable                        | 115,000                    | 0                           | 115,000          |
| Post employment benefit payable                         | 5,113                      | 0                           | 5,113            |
| Early retirement  | 7,810                      | 0                           | 7,810            |
| Portion due after one year:                             |                            |                             |                  |
| General obligation bonds payable                        | 2,235,000                  | 0                           | 2,235,000        |
| Post employment benefit payable                         | 4,748                      | 0                           | 4,748            |
| Early retirement  | 35,145                     | 0                           | 35,145           |
| <b>TOTAL LIABILITIES</b>                                | <b>5,203,141</b>           | <b>17,200</b>               | <b>5,220,341</b> |
| <b>NET ASSETS</b>                                       |                            |                             |                  |
| Invested in capital assets, net of related debt         | 1,716,544                  | 36,725                      | 1,753,269        |
| Restricted for:   |                            |                             |                  |
| Talented and gifted                                     | 10,964                     | 0                           | 10,964           |
| Beginning teacher mentoring                             | 3,453                      | 0                           | 3,453            |
| Salary improvement program                              | 605                        | 0                           | 605              |
| Professional development                                | 1,522                      | 0                           | 1,522            |
| Market factor   | 1,649                      | 0                           | 1,649            |
| Market factor incentives                                | 3,764                      | 0                           | 3,764            |
| Management levy   | 9,320                      | 0                           | 9,320            |
| Physical plant and equipment levy                       | 194,127                    | 0                           | 194,127          |
| Capital projects  | 621,050                    | 0                           | 621,050          |
| Debt service  | 42,360                     | 0                           | 42,360           |
| Other special revenue purposes                          | 53,883                     | 0                           | 53,883           |
| Unrestricted  | 608,713                    | 43,004                      | 651,717          |
| <b>TOTAL NET ASSETS</b>                                 | <b>\$ 3,267,954</b>        | <b>79,729</b>               | <b>3,347,683</b> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS



MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

|  | Program Revenues           |  |  |                     | Net (Expense) Revenue<br>and Changes in Net Assets |                                 | Total              |
|--|----------------------------|--|--|---------------------|--|---------------------------------|--------------------|
|  | Charges<br>for<br>Expenses | Operating Grants,<br>Contributions<br>and Restricted<br>Services<br>Interest | Capital Grants,<br>Contributions<br>and Restricted<br>Interest |                     | Govern-<br>mental<br>Activities                    | Business-<br>Type<br>Activities |                    |
| <b>Functions/Programs:</b>                     |                            |  |  |                     |  |                                 |                    |
| Governmental activities:                       |                            |  |  |                     |  |                                 |                    |
| Instruction:                                   |                            |  |  |                     |  |                                 |                    |
| Regular instruction                            | \$ 2,196,336               | 357,098  | 419,824  | 0                   | (1,419,414)  | 0                               | (1,419,414)        |
| Special instruction                            | 638,485                    | 143,784  | 25,617   | 0                   | (469,084)  | 0                               | (469,084)          |
| Other instruction                              | 490,742                    | 177,437  | 0  | 0                   | (313,305)  | 0                               | (313,305)          |
|  | <u>3,325,563</u>           | <u>678,319</u>   | <u>445,441</u>   | <u>0</u>            | <u>(2,201,803)</u>                                 | <u>0</u>                        | <u>(2,201,803)</u> |
| Support services:                              |                            |  |  |                     |  |                                 |                    |
| Student services                               | 142,225                    | 0  | 0  | 0                   | (142,225)  | 0                               | (142,225)          |
| Instructional staff services                   | 42,243                     | 0  | 0  | 0                   | (42,243)   | 0                               | (42,243)           |
| Administration services                        | 603,201                    | 0  | 0  | 0                   | (603,201)  | 0                               | (603,201)          |
| Operation and maintenance<br>of plant services | 525,747                    | 0  | 0  | 0                   | (525,747)  | 0                               | (525,747)          |
| Transportation services                        | 282,164                    | 0  | 3,842  | 0                   | (278,322)  | 0                               | (278,322)          |
|  | <u>1,595,580</u>           | <u>0</u>   | <u>3,842</u>   | <u>0</u>            | <u>(1,591,738)</u>                                 | <u>0</u>                        | <u>(1,591,738)</u> |
| Other expenditures:                            |                            |  |  |                     |  |                                 |                    |
| Facilities acquisitions                        | 60,645                     | 0  | 0  | 25,000              | (35,645)   | 0                               | (35,645)           |
| Long-term debt:                                |                            |  |  |                     |  |                                 |                    |
| Interest and fiscal charges                    | 105,260                    | 0  | 0  | 0                   | (105,260)  | 0                               | (105,260)          |
| AEA flowthrough                                | 170,406                    | 0  | 170,406  | 0                   | 0  | 0                               | 0                  |
| Depreciation (unallocated) *                   | 107,579                    | 0  | 0  | 0                   | (107,579)  | 0                               | (107,579)          |
|  | <u>443,890</u>             | <u>0</u>   | <u>170,406</u>   | <u>25,000</u>       | <u>(248,484)</u>                                   | <u>0</u>                        | <u>(248,484)</u>   |
| Total governmental activities                  | 5,365,033                  | 678,319  | 619,689  | 25,000              | (4,042,025)  | 0                               | (4,042,025)        |
| Business-Type activities:                      |                            |  |  |                     |  |                                 |                    |
| Instruction:                                   |                            |  |  |                     |  |                                 |                    |
| Regular instruction                            | 107,888                    | 116,850  | 0  | 0                   | 0  | 8,962                           | 8,962              |
| Support services:                              |                            |  |  |                     |  |                                 |                    |
| Transportation services                        | 637                        | 0  | 0  | 0                   | 0  | (637)                           | (637)              |
| Non-instructional programs:                    |                            |  |  |                     |  |                                 |                    |
| Nutrition services                             | 192,769                    | 137,521  | 68,566   | 0                   | 0  | 13,318                          | 13,318             |
| Day care services                              | 59,803                     | 61,018   | 0  | 0                   | 0  | 1,215                           | 1,215              |
| Total business-type activities                 | <u>361,097</u>             | <u>315,389</u>   | <u>68,566</u>  | <u>0</u>            | <u>0</u>   | <u>22,858</u>                   | <u>22,858</u>      |
| <b>Total</b>                                   | <u>\$ 5,726,130</u>        | <u>993,708</u>   | <u>688,255</u>   | <u>25,000</u>       | <u>(4,042,025)</u>                                 | <u>22,858</u>                   | <u>(4,019,167)</u> |
| <b>General Revenues:</b>                       |                            |  |  |                     |  |                                 |                    |
| Local tax for:                                 |                            |  |  |                     |  |                                 |                    |
| General purposes                               |                            |  |  | \$ 1,550,892        | 0  | 1,550,892                       |                    |
| Debt service                                   |                            |  |  | 180,690             | 0  | 180,690                         |                    |
| Capital outlays                                |                            |  |  | 98,122              | 0  | 98,122                          |                    |
| Local option sales and services tax            |                            |  |  | 293,832             | 0  | 293,832                         |                    |
| Unrestricted state grants                      |                            |  |  | 2,150,147           | 0  | 2,150,147                       |                    |
| Unrestricted investment earnings               |                            |  |  | 41,039              | 0  | 41,039                          |                    |
| Other general revenues                         |                            |  |  | 81,375              | 0  | 81,375                          |                    |
|  |                            |  |  | <u>4,396,097</u>    | <u>0</u>   | <u>4,396,097</u>                |                    |
| <b>Total general revenues</b>                  |                            |  |  |                     |  |                                 |                    |
| Changes in net assets                          |                            |  |  | 354,072             | 22,858   | 376,930                         |                    |
| Net assets beginning of year                   |                            |  |  | 2,913,882           | 56,871   | 2,970,753                       |                    |
| Net assets end of year                         |                            |  |  | <u>\$ 3,267,954</u> | <u>79,729</u>                                      | <u>3,347,683</u>                |                    |

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

|  | General             | Capital<br>Projects | Other<br>Nonmajor<br>Governmental<br>Funds | Total            |
|--|---------------------|---------------------|--|------------------|
| <b>ASSETS</b>                              |                     |                     |  |                  |
| Cash and pooled investments:               |                     |                     |  |                  |
| ISCAP(Note 4)                              | \$ 608,948          | 0                   | 0  | 608,948          |
| Other                                      | 755,469             | 475,278             | 341,442                                    | 1,572,189        |
| Receivables:                               |                     |                     |  |                  |
| Property tax:                              |                     |                     |  |                  |
| Delinquent                                 | 14,053              | 0                   | 3,890                                      | 17,943           |
| Succeeding year                            | 1,354,634           | 0                   | 342,692                                    | 1,697,326        |
| Income surtax                              | 190,047             | 0                   | 0  | 190,047          |
| Accounts                                   | 163,244             | 0                   | 0  | 163,244          |
| Accrued ISCAP interest(Note 4)             | 9,082               | 0                   | 0  | 9,082            |
| Due from other governments                 | 0                   | 145,772             | 0  | 145,772          |
| <b>TOTAL ASSETS</b>                        | <b>\$ 3,095,477</b> | <b>621,050</b>      | <b>688,024</b>                             | <b>4,404,551</b> |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                     |  |                  |
| Liabilities:                               |                     |                     |  |                  |
| Accounts payable                           | 118,330             | 0                   | 2,687                                      | 121,017          |
| Salaries and benefits payable              | 354,330             | 0                   | 0  | 354,330          |
| ISCAP warrants payable(Note 4)             | 607,000             | 0                   | 0  | 607,000          |
| ISCAP interest payable(Note 4)             | 9,042               | 0                   | 0  | 9,042            |
| ISCAP unamortized premium                  | 3,250               | 0                   | 0  | 3,250            |
| Deferred revenue:                          |                     |                     |  |                  |
| Succeeding year property tax               | 1,354,634           | 0                   | 342,692                                    | 1,697,326        |
| Income surtax                              | 190,047             | 0                   | 0  | 190,047          |
| Total liabilities                          | 2,636,633           | 0                   | 345,379                                    | 2,982,012        |
| Fund balances:                             |                     |                     |  |                  |
| Reserved for:                              |                     |                     |  |                  |
| Debt service                               | 0                   | 0                   | 42,360                                     | 42,360           |
| Talented and gifted                        | 10,964              | 0                   | 0  | 10,964           |
| Beginning teacher mentoring                | 3,453               | 0                   | 0  | 3,453            |
| Salary improvement program                 | 605                 | 0                   | 0  | 605              |
| Professional development                   | 1,522               | 0                   | 0  | 1,522            |
| Market factor                              | 1,649               | 0                   | 0  | 1,649            |
| Market factor incentives                   | 3,764               | 0                   | 0  | 3,764            |
| Unreserved:                                |                     |                     |  |                  |
| Undesignated:                              |                     |                     |  |                  |
| General                                    | 436,887             | 0                   | 0  | 436,887          |
| Capital projects                           | 0                   | 621,050             | 0  | 621,050          |
| Management levy                            | 0                   | 0                   | 52,275                                     | 52,275           |
| Physical plant and equipment levy          | 0                   | 0                   | 194,127                                    | 194,127          |
| Other special revenue purposes             | 0                   | 0                   | 53,883                                     | 53,883           |
| Total fund balances                        | 458,844             | 621,050             | 342,645                                    | 1,422,539        |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 3,095,477</b> | <b>621,050</b>      | <b>688,024</b>                             | <b>4,404,551</b> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2008

|   |                     |
|---|---------------------|
| Total fund balances of governmental funds (page 15)   | \$ 1,422,539        |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>   |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.  | 4,066,544           |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current period.   | 190,047             |
| Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, are deferred in the governmental funds.  | (8,360)             |
| Long-term liabilities, including general obligation bonds, early retirement, and post employment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | (2,402,816)         |
| Net assets of governmental activities (page 13)   | <u>\$ 3,267,954</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

|   | General      | Capital<br>Projects | Other<br>Nonmajor<br>Governmental<br>Funds | Total     |
|---|--------------|---------------------|--|-----------|
| <b>REVENUES:</b>                            |              |                     |  |           |
| Local sources:                              |              |                     |  |           |
| Local tax                                   | \$ 1,461,880 | 293,832             | 348,819                                    | 2,104,531 |
| Tuition                                     | 500,882      | 0                   | 0  | 500,882   |
| Other                                       | 103,640      | 11,447              | 184,764                                    | 299,851   |
| State sources                               | 2,653,668    | 0                   | 0  | 2,653,668 |
| Federal sources                             | 116,168      | 0                   | 25,000                                     | 141,168   |
| Total revenues                              | 4,836,238    | 305,279             | 558,583                                    | 5,700,100 |
| <b>EXPENDITURES:</b>                        |              |                     |  |           |
| Current:                                    |              |                     |  |           |
| Instruction:                                |              |                     |  |           |
| Regular instruction                         | 2,196,803    | 0                   | 0  | 2,196,803 |
| Special instruction                         | 632,249      | 0                   | 0  | 632,249   |
| Other instruction                           | 327,511      | 0                   | 160,008                                    | 487,519   |
|   | 3,156,563    | 0                   | 160,008                                    | 3,316,571 |
| Support services:                           |              |                     |  |           |
| Student services                            | 142,225      | 0                   | 0  | 142,225   |
| Instructional staff services                | 42,106       | 0                   | 0  | 42,106    |
| Administration services                     | 532,381      | 2,205               | 24,175                                     | 558,761   |
| Operation and maintenance of plant services | 440,934      | 14,955              | 73,692                                     | 529,581   |
| Transportation services                     | 290,599      | 0                   | 2,995                                      | 293,594   |
|   | 1,448,245    | 17,160              | 100,862                                    | 1,566,267 |
| Other expenditures:                         |              |                     |  |           |
| Facilities acquisitions                     | 0            | 56,917              | 47,194                                     | 104,111   |
| Long-term debt:                             |              |                     |  |           |
| Principal                                   | 0            | 0                   | 110,000                                    | 110,000   |
| Interest and fiscal charges                 | 0            | 0                   | 105,673                                    | 105,673   |
| AEA flowthrough                             | 170,406      | 0                   | 0  | 170,406   |
|   | 170,406      | 56,917              | 262,867                                    | 490,190   |
| Total expenditures                          | 4,775,214    | 74,077              | 523,737                                    | 5,373,028 |
| Excess of revenues over expenditures        | 61,024       | 231,202             | 34,846                                     | 327,072   |
| Other financing sources(uses):              |              |                     |  |           |
| Transfer in                                 | 0            | 0                   | 22,286                                     | 22,286    |
| Transfer out                                | 0            | (22,286)            | 0  | (22,286)  |
| Total other financing sources(uses)         | 0            | (22,286)            | 22,286                                     | 0         |
| Net change in fund balances                 | 61,024       | 208,916             | 57,132                                     | 327,072   |
| Fund balance beginning of year              | 397,820      | 412,134             | 285,513                                    | 1,095,467 |
| Fund balance end of year                    | \$ 458,844   | 621,050             | 342,645                                    | 1,422,539 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 327,072

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year are as follows:

|                                 |                  |          |
|---------------------------------|------------------|----------|
| Expenditures for capital assets | \$ 86,629        |          |
| Depreciation expense            | <u>(156,426)</u> | (69,797) |

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 110,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 413

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 19,005

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

|                          |               |                 |
|--------------------------|---------------|-----------------|
| Early retirement         | \$ (42,955)   |                 |
| Post employment benefits | <u>10,334</u> | <u>(32,621)</u> |

Changes in net assets of governmental activities (page 14) \$ 354,072

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2008

|  | School<br>Nutrition | Day<br>Care   | Pre<br>Kindergarten | Total         |
|--|---------------------|---------------|---------------------|---------------|
| <b>ASSETS</b>  |                     |               |                     |               |
| Cash and pooled investments                                | \$ 24,593           | 13,182        | 18,516              | 56,291        |
| Receivables:   |                     |               |                     |               |
| Accounts   | 0                   | 1,270         | 418                 | 1,688         |
| Inventories  | 2,225               | 0             | 0                   | 2,225         |
| Capital assets, net of accumulated<br>depreciation(Note 5) | 36,725              | 0             | 0                   | 36,725        |
| <b>TOTAL ASSETS</b>  | <b>63,543</b>       | <b>14,452</b> | <b>18,934</b>       | <b>96,929</b> |
| <b>LIABILITIES</b>   |                     |               |                     |               |
| Accounts payable   | 0                   | 1,687         | 200                 | 1,887         |
| Salaries and benefits payable                              | 0                   | 0             | 12,252              | 12,252        |
| Unearned revenue   | 3,061               | 0             | 0                   | 3,061         |
| <b>TOTAL LIABILITIES</b>                                   | <b>3,061</b>        | <b>1,687</b>  | <b>12,452</b>       | <b>17,200</b> |
| <b>NET ASSETS</b>  |                     |               |                     |               |
| Invested in capital assets                                 | 36,725              | 0             | 0                   | 36,725        |
| Unrestricted   | 23,757              | 12,765        | 6,482               | 43,004        |
| Total net assets   | <b>\$ 60,482</b>    | <b>12,765</b> | <b>6,482</b>        | <b>79,729</b> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
 YEAR ENDED JUNE 30, 2008

|  | School<br>Nutrition | Day<br>Care | Pre<br>Kindergarten | Total    |
|--|---------------------|-------------|---------------------|----------|
| OPERATING REVENUE:                             |                     |             |                     |          |
| Local sources:                                 |                     |             |                     |          |
| Charges for services                           | \$ 137,521          | 61,018      | 116,850             | 315,389  |
| OPERATING EXPENSES:                            |                     |             |                     |          |
| Instruction:                                   |                     |             |                     |          |
| Regular:                                       |                     |             |                     |          |
| Salaries                                       | 0                   | 0           | 65,621              | 65,621   |
| Benefits                                       | 0                   | 0           | 20,822              | 20,822   |
| Supplies                                       | 0                   | 0           | 21,445              | 21,445   |
| Total instruction                              | 0                   | 0           | 107,888             | 107,888  |
| Support services:                              |                     |             |                     |          |
| Transportation services:                       |                     |             |                     |          |
| Services                                       | 0                   | 637         | 0                   | 637      |
| Non-instructional programs:                    |                     |             |                     |          |
| Food and community<br>service operations:      |                     |             |                     |          |
| Salaries                                       | 77,943              | 45,587      | 0                   | 123,530  |
| Benefits                                       | 10,278              | 5,758       | 0                   | 16,036   |
| Services                                       | 3,178               | 0           | 0                   | 3,178    |
| Supplies                                       | 95,442              | 8,458       | 0                   | 103,900  |
| Depreciation                                   | 3,708               | 0           | 0                   | 3,708    |
| Total food and community<br>service operations | 190,549             | 59,803      | 0                   | 250,352  |
| TOTAL OPERATING EXPENSES                       | 190,549             | 60,440      | 107,888             | 358,877  |
| OPERATING INCOME (LOSS)                        | (53,028)            | 578         | 8,962               | (43,488) |
| NON-OPERATING REVENUES (EXPENSES):             |                     |             |                     |          |
| Loss on disposal of assets                     | (2,220)             | 0           | 0                   | (2,220)  |
| State sources                                  | 2,611               | 0           | 0                   | 2,611    |
| Federal sources                                | 65,955              | 0           | 0                   | 65,955   |
| TOTAL NON-OPERATING<br>REVENUES (EXPENSES)     | 66,346              | 0           | 0                   | 66,346   |
| Change in net assets                           | 13,318              | 578         | 8,962               | 22,858   |
| Net assets beginning of year                   | 47,164              | 12,187      | (2,480)             | 56,871   |
| Net assets end of year                         | \$ 60,482           | 12,765      | 6,482               | 79,729   |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2008

|  | School<br>Nutrition | Day<br>Care | Pre<br>Kindergarten | Total     |
|--|---------------------|-------------|---------------------|-----------|
| Cash flows from operating activities:  |                     |             |                     |           |
| Cash received from sale of lunches and breakfasts  | \$ 137,857          | 0           | 0                   | 137,857   |
| Cash received from miscellaneous operating activities  | 0                   | 61,317      | 116,432             | 177,749   |
| Cash payments to employees for services  | (88,221)            | (51,345)    | (80,003)            | (219,569) |
| Cash payments to suppliers for goods or services   | (85,316)            | (7,947)     | (21,245)            | (114,508) |
| Net cash provided by(used in) operating activities   | (35,680)            | 2,025       | 15,184              | (18,471)  |
| Cash flows from non-capital financing activities:  |                     |             |                     |           |
| State grants received  | 2,611               | 0           | 0                   | 2,611     |
| Federal grants received  | 53,403              | 0           | 0                   | 53,403    |
| Net cash provided by non-capital financing activities  | 56,014              | 0           | 0                   | 56,014    |
| Cash flows from capital and other financing activities:  |                     |             |                     |           |
| Acquisition of assets  | (14,961)            | 0           | 0                   | (14,961)  |
| Net increase in cash and cash equivalents  | 5,373               | 2,025       | 15,184              | 22,582    |
| Cash and cash equivalents at beginning of year   | 19,220              | 11,157      | 3,332               | 33,709    |
| Cash and cash equivalents at end of year   | \$ 24,593           | 13,182      | 18,516              | 56,291    |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:                      |                     |             |                     |           |
| Operating income(loss)   | \$ (53,028)         | 578         | 8,962               | (43,488)  |
| Adjustments to reconcile operating loss to net cash provided by(used in) operating activities:                       |                     |             |                     |           |
| Commodities consumed   | 12,552              | 0           | 0                   | 12,552    |
| Depreciation   | 3,708               | 0           | 0                   | 3,708     |
| Decrease in inventories  | 752                 | 0           | 0                   | 752       |
| Decrease(increase) in accounts receivable  | 0                   | 299         | (418)               | (119)     |
| Increase in accounts payable   | 0                   | 1,148       | 200                 | 1,348     |
| Increase in unearned revenue   | 336                 | 0           | 0                   | 336       |
| Increase in salaries and benefits payable  | 0                   | 0           | 6,440               | 6,440     |
| Net cash provided by(used in) operating activities   | \$ (35,680)         | 2,025       | 15,184              | (18,471)  |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR<br>END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE<br>SHEET: |                     |             |                     |           |
| Current assets:  |                     |             |                     |           |
| Cash and investments   | \$ 24,593           | 13,182      | 18,516              | 56,291    |

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$12,552.

SEE NOTES TO BASIC FINANCIAL STATEMENTS



MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2008

|                             | <u>Private Purpose</u>           |
|-----------------------------|----------------------------------|
|                             | <u>Trust</u>                     |
|                             | <u>Scholarship</u>               |
| ASSETS                      |                                  |
| Cash and pooled investments | <u>\$          76,770</u>        |
| LIABILITIES                 |                                  |
|                             | <u>0</u>                         |
| NET ASSETS                  |                                  |
| Reserved for scholarships   | <u><u>\$          76,770</u></u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2008

|                              | Private Purpose<br>Trust<br>Scholarship |
|------------------------------|---|
| Additions:                   |   |
| Local sources:               |   |
| Interest on investments      | \$ 1,699                                |
| Deductions:                  |   |
| Non-instructional programs:  |   |
| Scholarships awarded         | 3,000                                   |
| Change in net assets         | (1,301)                                 |
| Net assets beginning of year | 78,071                                  |
| Net assets end of year       | \$ 76,770                               |

SEE NOTES TO BASIC FINANCIAL STATEMENTS

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Martensdale-St. Marys Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and pre-kindergarten. The geographic area served includes the Cities of Martensdale and St. Marys, Iowa, and the predominate agricultural territory in Warren and Madison Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Martensdale-St. Marys Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Martensdale-St. Marys Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Warren and Madison Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise fund, School Nutrition Fund, Day Care Fund and Pre-kindergarten Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Day Care Fund

is used to account for the day care service operations of the District. The Pre-kindergarten Fund is used to account for services provided to pre-kindergarten aged children by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year.

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class                     | Amount |
|---------------------------------|--------|
| Land                            | \$ 500 |
| Buildings                       | 500    |
| Land improvements               | 500    |
| Machinery and equipment:        |        |
| School Nutrition Fund equipment | 500    |
| Other machinery and equipment   | 500    |

Capital assets are depreciated using the straight line method over the following estimated useful lives:

| Asset Class             | Estimated Useful Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings               | 50 years                          |
| Land improvements       | 20 years                          |
| Machinery and equipment | 5-12 years                        |

Salaries and Benefits Payable- Payroll and related expenditures for corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase



agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

|                       | Amortized Cost |
|-----------------------|----------------|
| Diversified Portfolio | \$ 552,695     |

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The Certificates of Deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of Deposit are stated at fair value.

At June 30, 2008, the District had investments in Certificates of Deposit maturing in over one year as follows:

|                        | Fair Value |
|------------------------|------------|
| Certificate of deposit | \$ 76,000  |

### (3) Transfers

The detail of transfers for the year ended June 30, 2008 is as follows:

| Transfer to  | Transfer from    | Amount    |
|--------------|------------------|-----------|
| Debt Service | Capital Projects | \$ 22,286 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

### (4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2008 is as follows:

| Series   | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable |
|----------|--------------|------------------------|-------------|-----------------------------|------------------|--------------------------|
| 2007-08B | 1/23/2008    | 1/21/2009              | \$ 608,948  | 9,082                       | 607,000          | 9,042                    |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

| Series   | Balance Beginning of Year | Advances Received | Advances Repaid | Balance End of Year |
|----------|---------------------------|-------------------|-----------------|---------------------|
| 2007-08B | \$ 0                      | 50,000            | 50,000          | 0                   |

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

| Series   | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------|-------------------------------|
| 2007-08B | 3.750%                     | 3.451%                        |

##### (5) Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

|   | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---|---------------------------|-----------|-----------|---------------------|
| Governmental activities:                    |                           |           |           |                     |
| Capital assets not being depreciated:       |                           |           |           |                     |
| Land  | \$ 110,000                | 0         | 0         | 110,000             |
| Construction in progress                    | 0                         | 5,311     | 0         | 5,311               |
| Total capital assets not being depreciated  | 110,000                   | 5,311     | 0         | 115,311             |
| Land improvements                           | 80,969                    | 0         | 0         | 80,969              |
| Buildings and improvements                  | 5,135,558                 | 38,155    | 0         | 5,173,713           |
| Machinery and equipment                     | 876,506                   | 43,163    | 0         | 919,669             |
| Total capital assets being depreciated      | 6,093,033                 | 81,318    | 0         | 6,174,351           |
| Less accumulated depreciation for:          |                           |           |           |                     |
| Land improvements                           | 5,322                     | 6,823     | 0         | 12,145              |
| Buildings and improvements                  | 1,281,747                 | 100,756   | 0         | 1,382,503           |
| Machinery and equipment                     | 779,623                   | 48,847    | 0         | 828,470             |
| Total accumulated depreciation              | 2,066,692                 | 156,426   | 0         | 2,223,118           |
| Total capital assets being depreciated, net | 4,026,341                 | (75,108)  | 0         | 3,951,233           |
| Governmental activities capital assets, net | \$ 4,136,341              | (69,797)  | 0         | 4,066,544           |

|  | Balance<br>Beginning<br>of Year | Increases     | Decreases    | Balance<br>End<br>of Year |
|--|---------------------------------|---------------|--------------|---------------------------|
| Business-type activities:                    |                                 |               |              |                           |
| Machinery and equipment                      | \$ 78,500                       | 14,961        | 5,805        | 87,656                    |
| Less accumulated depreciation                | 50,808                          | 3,708         | 3,585        | 50,931                    |
| Business-type activities capital assets, net | <u>\$ 27,692</u>                | <u>11,253</u> | <u>2,220</u> | <u>36,725</u>             |

Depreciation expense was charged by the District as follows:

|  |                   |
|--|-------------------|
| Instruction:                                       |                   |
| Regular  | \$ 10,566         |
| Special  | 6,236             |
| Other  | 8,333             |
| Support services:                                  |                   |
| Instructional staff                                | 137               |
| Administration                                     | 1,485             |
| Operation and maintenance of plant                 | 13,660            |
| Transportation                                     | 8,430             |
| Unallocated depreciation                           | <u>107,579</u>    |
| Total governmental activities depreciation expense | <u>\$ 156,426</u> |
| Business-type activities:                          |                   |
| Food services                                      | <u>\$ 3,708</u>   |

#### (6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008 are summarized as follows:

|                          | Balance<br>Beginning<br>of Year | Additions     | Deletions      | Balance<br>End of<br>Year | Due<br>Within<br>One Year |
|--------------------------|---------------------------------|---------------|----------------|---------------------------|---------------------------|
| General Obligation Bonds | \$ 2,460,000                    | 0             | 110,000        | 2,350,000                 | 115,000                   |
| Post Employment Benefits | 20,195                          | 0             | 10,334         | 9,861                     | 5,113                     |
| Early Retirement         | 0                               | 49,463        | 6,508          | 42,955                    | 7,810                     |
| Total                    | <u>\$ 2,480,195</u>             | <u>49,463</u> | <u>126,842</u> | <u>2,402,816</u>          | <u>127,923</u>            |

#### General Obligation Bonds Payable

Details of the District's June 30, 2008 general obligation bonded indebtedness are as follows:

| Year<br>Ending<br>June 30, | Bond Issue of December 31, 2003 |                     |                |                  |
|----------------------------|---------------------------------|---------------------|----------------|------------------|
|                            | Interest<br>Rates               | Principal           | Interest       | Total            |
| 2009                       | 4.25                            | % \$ 115,000        | 100,323        | 215,323          |
| 2010                       | 4.00                            | 120,000             | 95,435         | 215,435          |
| 2011                       | 3.25                            | 125,000             | 90,635         | 215,635          |
| 2012                       | 3.50                            | 130,000             | 86,573         | 216,573          |
| 2013                       | 3.75                            | 135,000             | 82,022         | 217,022          |
| 2014-2018                  | 4.00-4.40                       | 770,000             | 321,050        | 1,091,050        |
| 2019-2023                  | 4.50-4.75                       | 955,000             | 138,100        | 1,093,100        |
| Total                      |                                 | <u>\$ 2,350,000</u> | <u>914,138</u> | <u>3,264,138</u> |

### Post Employment Benefits

The District offered a post employment benefit package. The post employment benefit included family health insurance for four years with a cap of \$800 per month and two more years of single health insurance with a cap of \$315 per month. The post employment benefit will be paid from the General Fund. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

#### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$151,228, \$134,388, and \$121,106, respectively, equal to the required contributions for each year.

#### **(8) Risk Management**

Martensdale-St. Marys Community School District is a member in the Iowa School Employees Benefits Association, and Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: accidental death, dental, life and long-term disability.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2008 were \$26,044.

Martensdale-St. Marys Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$170,406 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Construction Commitments**

The District entered into various contracts for a football field project. At June 30, 2008, \$5,311 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2008

|  | Governmental<br>Fund Types<br>Actual | Proprietary<br>Fund Types<br>Actual | Total<br>Actual | Budgeted Amounts |           | Final to<br>Actual<br>Variance |
|--|--------------------------------------|-------------------------------------|-----------------|------------------|-----------|--------------------------------|
|  |                                      |                                     |                 | Original         | Final     |                                |
| Revenues:  |                                      |                                     |                 |                  |           |                                |
| Local sources  | \$ 2,905,264                         | 315,389                             | 3,220,653       | 2,807,265        | 2,807,265 | 413,388                        |
| State sources  | 2,653,668                            | 2,611                               | 2,656,279       | 2,674,533        | 2,674,533 | (18,254)                       |
| Federal sources  | 141,168                              | 65,955                              | 207,123         | 158,000          | 158,000   | 49,123                         |
| Total revenues   | 5,700,100                            | 383,955                             | 6,084,055       | 5,639,798        | 5,639,798 | 444,257                        |
| Expenditures:  |                                      |                                     |                 |                  |           |                                |
| Instruction  | 3,316,571                            | 107,888                             | 3,424,459       | 3,280,688        | 3,500,000 | 75,541                         |
| Support services   | 1,566,267                            | 637                                 | 1,566,904       | 1,726,500        | 1,800,000 | 233,096                        |
| Non-instructional programs                                 | 0                                    | 252,572                             | 252,572         | 230,000          | 350,000   | 97,428                         |
| Other expenditures   | 490,190                              | 0                                   | 490,190         | 440,765          | 600,000   | 109,810                        |
| Total expenditures   | 5,373,028                            | 361,097                             | 5,734,125       | 5,677,953        | 6,250,000 | 515,875                        |
| Excess(deficiency) of revenues<br>over(under) expenditures | 327,072                              | 22,858                              | 349,930         | (38,155)         | (610,202) | 960,132                        |
| Balance beginning of year                                  | 1,095,467                            | 56,871                              | 1,152,338       | 675,193          | 675,193   | 477,145                        |
| Balance end of year  | \$ 1,422,539                         | 79,729                              | 1,502,268       | 637,038          | 64,991    | 1,437,277                      |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2008

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted disbursements by \$572,047.



OTHER SUPPLEMENTARY INFORMATION

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2008

|  | Special Revenue Funds   |                     |  |                                      |                 | Total                                      |
|--|-------------------------|---------------------|--|--------------------------------------|-----------------|--|
|  | Manage-<br>ment<br>Levy | Student<br>Activity | Physical<br>Plant and<br>Equipment<br>Levy | Total<br>Special<br>Revenue<br>Funds | Debt<br>Service | Other<br>Nonmajor<br>Governmental<br>Funds |
| ASSETS                                 |                         |                     |  |                                      |                 |  |
| Cash and pooled investments            | \$ 51,494               | 53,883              | 195,720                                    | 301,097                              | 40,345          | 341,442                                    |
| Receivables:                           |                         |                     |  |                                      |                 |  |
| Property tax:                          |                         |                     |  |                                      |                 |  |
| Current year delinquent                | 781                     | 0                   | 1,094                                      | 1,875                                | 2,015           | 3,890                                      |
| Succeeding year                        | 70,000                  | 0                   | 106,969                                    | 176,969                              | 165,723         | 342,692                                    |
| TOTAL ASSETS                           | \$ 122,275              | 53,883              | 303,783                                    | 479,941                              | 208,083         | 688,024                                    |
| LIABILITIES AND FUND BALANCES          |                         |                     |  |                                      |                 |  |
| Liabilities:                           |                         |                     |  |                                      |                 |  |
| Accounts payable                       | \$ 0                    | 0                   | 2,687                                      | 2,687                                | 0               | 2,687                                      |
| Deferred revenue:                      |                         |                     |  |                                      |                 |  |
| Succeeding year property tax           | 70,000                  | 0                   | 106,969                                    | 176,969                              | 165,723         | 342,692                                    |
|  | 70,000                  | 0                   | 109,656                                    | 179,656                              | 165,723         | 345,379                                    |
| Fund balances:                         |                         |                     |  |                                      |                 |  |
| Reserved for debt service              | 0                       | 0                   | 0  | 0                                    | 42,360          | 42,360                                     |
| Unreserved fund balances               | 52,275                  | 53,883              | 194,127                                    | 300,285                              | 0               | 300,285                                    |
| Total fund balances                    | 52,275                  | 53,883              | 194,127                                    | 300,285                              | 42,360          | 342,645                                    |
| TOTAL LIABILITIES AND<br>FUND BALANCES | \$ 122,275              | 53,883              | 303,783                                    | 479,941                              | 208,083         | 688,024                                    |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2008

|  | Special Revenue Funds |          |           |         |          | Total        |
|--|-----------------------|----------|-----------|---------|----------|--------------|
|  | Manage-               | Student  | Physical  | Total   | Debt     | Other        |
|  | ment                  | Activity | Plant and | Special | Service  | Nonmajor     |
|  | Levy                  |          | Equipment | Revenue |          | Governmental |
|  |                       |          | Levy      | Funds   |          | Funds        |
| REVENUES:  |                       |          |           |         |          |              |
| Local sources:   |                       |          |           |         |          |              |
| Local tax  | \$ 70,007             | 0        | 98,122    | 168,129 | 180,690  | 348,819      |
| Other  | 7,037                 | 150,582  | 27,145    | 184,764 | 0        | 184,764      |
| Federal sources  | 0                     | 0        | 25,000    | 25,000  | 0        | 25,000       |
| TOTAL REVENUES   | 77,044                | 150,582  | 150,267   | 377,893 | 180,690  | 558,583      |
| EXPENDITURES:  |                       |          |           |         |          |              |
| Current:   |                       |          |           |         |          |              |
| Instruction:   |                       |          |           |         |          |              |
| Other  | 0                     | 160,008  | 0         | 160,008 | 0        | 160,008      |
| Support services:  |                       |          |           |         |          |              |
| Administration services                                    | 11,616                | 0        | 12,559    | 24,175  | 0        | 24,175       |
| Operation and maintenance of<br>plant services             | 40,601                | 0        | 33,091    | 73,692  | 0        | 73,692       |
| Student transportation                                     | 2,995                 | 0        | 0         | 2,995   | 0        | 2,995        |
| Other expenditures:  |                       |          |           |         |          |              |
| Facilities acquisitions                                    | 0                     | 0        | 47,194    | 47,194  | 0        | 47,194       |
| Long-term debt:  |                       |          |           |         |          |              |
| Principal  | 0                     | 0        | 0         | 0       | 110,000  | 110,000      |
| Interest and fiscal charges                                | 0                     | 0        | 0         | 0       | 105,673  | 105,673      |
| TOTAL EXPENDITURES   | 55,212                | 160,008  | 92,844    | 308,064 | 215,673  | 523,737      |
| EXCESS(DEFICIENCY) OF REVENUES<br>OVER(UNDER) EXPENDITURES | 21,832                | (9,426)  | 57,423    | 69,829  | (34,983) | 34,846       |
| OTHER FINANCING SOURCES:                                   |                       |          |           |         |          |              |
| Transfer in  | 0                     | 0        | 0         | 0       | 22,286   | 22,286       |
| NET CHANGE IN FUND BALANCES                                | 21,832                | (9,426)  | 57,423    | 69,829  | (12,697) | 57,132       |
| FUND BALANCE BEGINNING OF YEAR                             | 30,443                | 63,309   | 136,704   | 230,456 | 55,057   | 285,513      |
| FUND BALANCE END OF YEAR                                   | \$ 52,275             | 53,883   | 194,127   | 300,285 | 42,360   | 342,645      |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2008

| Account                     | Balance<br>Beginning<br>of Year | Revenues | Expendi-<br>tures | Balance<br>End<br>of Year |
|-----------------------------|---------------------------------|----------|-------------------|---------------------------|
| Drama                       | \$ 4,089                        | 2,278    | 2,009             | 4,358                     |
| Vocal Music                 | 0                               | 3,584    | 3,213             | 371                       |
| Instrumental Music          | 0                               | 3,528    | 2,871             | 657                       |
| Music Resale                | 455                             | 725      | 580               | 600                       |
| Band                        | 1,553                           | 0        | 450               | 1,103                     |
| Boys Basketball             | 4,494                           | 5,242    | 5,305             | 4,431                     |
| Athletic Resale             | 185                             | 2,380    | 2,547             | 18                        |
| Athletics                   | 7,429                           | 38,445   | 45,029            | 845                       |
| Golf                        | 859                             | 0        | 30                | 829                       |
| Girls Basketball            | 370                             | 6,506    | 4,646             | 2,230                     |
| Elementary Student Council  | 1,856                           | 1,115    | 2,605             | 366                       |
| Volleyball                  | 61                              | 3,526    | 2,773             | 814                       |
| Boys Track                  | 915                             | 1,937    | 1,757             | 1,095                     |
| Football                    | 3,190                           | 7,105    | 8,776             | 1,519                     |
| Cross Country               | 184                             | 267      | 267               | 184                       |
| Baseball                    | 2,547                           | 20,487   | 20,436            | 2,598                     |
| Girls Track                 | 686                             | 3,442    | 3,314             | 814                       |
| Wrestling                   | 3                               | 0        | 0                 | 3                         |
| Softball                    | 1,229                           | 6,799    | 4,993             | 3,035                     |
| Junior High Student Council | 0                               | 190      | 190               | 0                         |
| Pop                         | (3,793)                         | 4,751    | 266               | 692                       |
| Student Council             | 2,649                           | 1,208    | 2,253             | 1,604                     |
| Pictures                    | 2,886                           | 482      | 0                 | 3,368                     |
| Pictures Interest           | 46                              | 0        | 0                 | 46                        |
| Student Ambassadors         | 1,879                           | 0        | 0                 | 1,879                     |
| National Honor Society      | 644                             | 260      | 446               | 458                       |
| Dance                       | 1,336                           | 9,012    | 7,848             | 2,500                     |
| Lockers                     | 607                             | 0        | 0                 | 607                       |
| Math Resale                 | 138                             | 65       | 0                 | 203                       |
| Class of 2005               | 1,192                           | 0        | 1,192             | 0                         |
| Class of 2007               | 2,023                           | 0        | 2,023             | 0                         |
| Class of 2008               | 748                             | 7,373    | 7,856             | 265                       |
| Class of 2009               | 1,108                           | 3,804    | 4,713             | 199                       |
| Class of 2010               | 1,724                           | 0        | 0                 | 1,724                     |
| Class of 2011               | 1,412                           | 0        | 0                 | 1,412                     |
| Class of 2012               | 1,247                           | 28       | 0                 | 1,275                     |
| Class of 2013               | 192                             | 2,545    | 1,160             | 1,577                     |
| Past Alumni                 | 1,168                           | 0        | 1,168             | 0                         |
| Annual                      | 9,796                           | 5,272    | 8,413             | 6,655                     |
| Wrestling Cheerleaders      | 695                             | 355      | 165               | 885                       |
| FB/BB Cheerleaders          | 3,828                           | 3,322    | 6,216             | 934                       |
| General Activities          | 1,621                           | 4,549    | 4,498             | 1,672                     |
| Adult Ed                    | 58                              | 0        | 0                 | 58                        |
| Total                       | \$ 63,309                       | 150,582  | 160,008           | 53,883                    |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FIVE YEARS

|   | Modified Accrual Basis |                  |                  |                  |                  |
|---|------------------------|------------------|------------------|------------------|------------------|
|   | Years Ended June 30,   |                  |                  |                  |                  |
|   | 2008                   | 2007             | 2006             | 2005             | 2004             |
| Revenues:                                   |                        |                  |                  |                  |                  |
| Local sources:                              |                        |                  |                  |                  |                  |
| Local tax                                   | \$ 2,104,531           | 2,020,429        | 1,828,027        | 1,782,209        | 1,468,089        |
| Tuition                                     | 500,882                | 346,166          | 268,793          | 193,115          | 237,180          |
| Other                                       | 299,851                | 277,391          | 257,101          | 274,261          | 228,111          |
| State sources                               | 2,653,668              | 2,535,980        | 2,256,776        | 2,278,432        | 2,197,005        |
| Federal sources                             | 141,168                | 163,723          | 387,275          | 304,235          | 186,085          |
| Total                                       | <u>\$ 5,700,100</u>    | <u>5,343,689</u> | <u>4,997,972</u> | <u>4,832,252</u> | <u>4,316,470</u> |
| Expenditures:                               |                        |                  |                  |                  |                  |
| Current:                                    |                        |                  |                  |                  |                  |
| Instruction:                                |                        |                  |                  |                  |                  |
| Regular instruction                         | \$ 2,196,803           | 2,091,929        | 1,919,119        | 1,802,790        | 1,824,800        |
| Special instruction                         | 632,249                | 524,806          | 592,288          | 645,026          | 422,627          |
| Other instruction                           | 487,519                | 405,925          | 346,799          | 358,071          | 367,606          |
| Support services:                           |                        |                  |                  |                  |                  |
| Student services                            | 142,225                | 140,778          | 103,331          | 93,793           | 89,627           |
| Instructional staff services                | 42,106                 | 41,249           | 58,315           | 60,109           | 57,935           |
| Administration services                     | 558,761                | 573,015          | 522,627          | 461,959          | 519,924          |
| Operation and maintenance of plant services | 529,581                | 607,604          | 442,073          | 418,060          | 348,965          |
| Transportation services                     | 293,594                | 271,562          | 264,664          | 208,206          | 197,403          |
| Other support services                      | 0                      | 0                | 0                | 0                | 4,883            |
| Other expenditures:                         |                        |                  |                  |                  |                  |
| Facilities acquisitions                     | 104,111                | 179,494          | 390,091          | 2,501,314        | 231,636          |
| Long-term debt:                             |                        |                  |                  |                  |                  |
| Principal                                   | 110,000                | 105,000          | 100,000          | 47,985           | 12,360           |
| Interest and fiscal charges                 | 105,673                | 110,398          | 115,646          | 176,478          | 1,274            |
| AEA flow-through                            | 170,406                | 159,775          | 141,717          | 140,879          | 139,942          |
| Total                                       | <u>\$ 5,373,028</u>    | <u>5,211,535</u> | <u>4,996,670</u> | <u>6,914,670</u> | <u>4,218,982</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
Martensdale-St Marys Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Martensdale-St Marys Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 18, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Martensdale-St Marys Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Martensdale-St Marys Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Martensdale-St Marys Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Martensdale-St Marys Community School District's financial statements that is more than inconsequential will not be prevented or detected by Martensdale-St Marys Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Martensdale-St Marys Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Martensdale-St Marys Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Martensdale-St Marys Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Martensdale-St Marys Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Martensdale-St Marys Community School District and other parties to whom Martensdale-St Marys Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Martensdale-St Marys Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 18, 2009

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement them as soon as possible.

Conclusion - Response accepted.

I-B-08 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and deprecation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited. This training helps in providing instruction as well as promotes networking of other accounting personnel. There was no end of year GAAP adjustments made in the Nutrition Fund for changes in inventories, capital assets, student lunch account balances and commodities received.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every district. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - The Board Secretary and Superintendent's Secretary will be taking the necessary training with Software Unlimited for the end of the year training in an effort to provide more reliable financial statements. The Board Secretary will also be taking additional training to record the financial records on a GAAP basis of accounting, along with training to be more effective in completing the Certified Annual Report.

Conclusion - Response accepted.



- I-C-08 Authorized Check Signatures - During our audit we noted instances of scholarship checks written by the District that had only the Board Secretary's signature. Chapter 291.1 and 291.8 of the Code of Iowa requires the Board President and Board Secretary to sign all District checks with an original or facsimile signature. Also, according to Chapter 291.1, the Board President may designate an individual, that is not the Board Secretary, to sign warrants on his/her behalf, however the Board Secretary may not designate an individual to sign in his/her absence.

Recommendation - The District should review procedures to ensure that proper signatures are on all checks in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - Scholarship checks are now being signed by the Board Secretary and the Board President.

Conclusion - Response accepted.

- I-D-08 Bank Reconciliations - We noted during our audit that the District completes bank reconciliations of the Activity Fund and Nutrition Fund, however, the balance on the District's general ledger is not being reconciled to balance with the bank reconciliations in a timely manner.

Recommendation - The District should reconcile bank statements to the general ledger balances. Any discrepancies between the general ledger and the bank reconciliations should be investigated and adjusted on a monthly basis.

Response - Personnel will seek additional training to be able to reconcile the bank statements to the general ledger on the software system in a timely manner.

Conclusion - Response accepted.

- I-E-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches or sponsors who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches and sponsors.

Response - The Board Secretary is currently keeping track of hours worked for coaches and sponsors who are non-certified staff.

Conclusion - Response accepted.

- I-F-08 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations of the General, Activity and Nutrition Funds that have been outstanding for over a year.

Recommendation - The District should research outstanding checks to determine if they should be reissued, voided, or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>.

Response - The District will determine if outstanding checks need to be voided, reissued or submitted as unclaimed property and handle them accordingly.

Conclusion - Response accepted.

I-G-08 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets.

Response - We will try with manpower available to keep track of the fixed assets. Time will be allocated this summer to address this issue.

Conclusion - Response accepted.

I-H-08 Grants - We noted during our audit, that when expenditures for specific projects were Posted, expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures. The district should monitor timelines for grants to ensure that quarterly reports are filed timely and therefore grant revenues are received for the programs.

Response - We will review the Uniform Financial Accounting Manual and work towards better coding of expenditures.

Conclusion - Response accepted.

I-I-08 Retention of Records - During our audit we noted that bank reconciliations and records of receipts for the Nutrition and Activity Funds were not readily available.

Recommendation - The District should review and implement new procedures to ensure that records are readily assessable.

Response - We will maintain a filing system so that records are more readily accessible.

Conclusion - Response accepted.

I-J-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the co-curricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended. Also during our audit, we noted that the resale receipts didn't have any detail on them.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

The Student Activity Fund has an Adult Education account. This account appears to be more instructional in nature. Revenues and expenditures associated with instruction are more appropriately handled through the General Fund. Remaining funds in this account should be transferred to the General Fund.

The Student Activity Fund has a Locker Fund account that has been inactive for several years. The District's Board of Directors should review the purpose of this account and determine if the purpose is allowable according to the guidelines mentioned above for the Student Activity Fund. If the account is determined unallowable in the Student Activity Fund, remaining monies should be transferred to the most appropriate fund.

The Pictures account is comprised of Lifetouch picture commissions. The General Fund is the only allowable fund for commission revenue recognition. In the future, Lifetouch picture commissions should be receipted to the General Fund.

Response - The Locker Fund account has been transferred to the General Fund and the Adult Education Fund account will be redistributed to other Student Activity Fund accounts. The money in the Life Touch Fund will be transferred to the General Fund. In the future, Lifetouch commissions will be placed in the General Fund.

Conclusion - Response accepted.

I-K-08 Sponsor Procedures - We noted during our audit that sponsors are not turning in collected receipts to the administration office for deposit in a timely manner. The breakdown of control procedures for the receipting process becomes apparent as sponsors maintain collected revenues. The holding of undeposited funds by the sponsors provides a risk of loss due to possible theft, improper use or loss as well as lack of reporting of funds.

Recommendation - The District should review procedures with sponsors and take necessary action to require all individuals to turn in collected money daily. Sponsors who knowingly circumvent procedures prescribed by the Board of Directors should be held accountable for their actions, as they pose a substantial risk for loss of assets or improper use of funds which the Board of Directors is held accountable.

Response - Our staff has been addressed regarding collection of money from individuals. Staff has been reminded that collections are to be turned into the Superintendent's Secretary daily. Disciplinary action will be taken against staff that will not comply.

Conclusion - Response accepted.

MARTENSDALE-ST. MARYS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-08 Certified Budget - District expenditures for the year ended June 30, 2008 did not exceed the certified amounts in the functional areas.
- II-B-08 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-08 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title and<br>Business Connection                              | Transaction<br>Description | Amount   |
|---|----------------------------|----------|
| Pat Connor, Board Member<br>Spouse is a teacher's aide              | Services                   | \$12,286 |
| A. Velvet Van Hoose, Board Member<br>Spouse drives bus for District | Services                   | \$135    |

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouses of Board Members do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - Board meetings are held on the second Monday of the month and the minutes are now being sent to the newspaper by email on the Friday of that week so they can be published in a timely manner.

Conclusion - Response accepted.

- II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-J-08 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District's electronic image of checks from Regions Bank only shows the front of cancelled checks.

Recommendation - The District needs to contact Regions Bank and request that images of the front and back of cancelled checks be provided to the District. If it is not cost effective for the District to have cancelled checks provided in an electronic format from Regions Bank, the District may want to consider requesting the original cancelled check for their records.

Response - The District has contacted Regions Bank and has determined the most cost effective way to comply with 554D.114 of the Code of Iowa is to have the bank return the original cancelled check to the District.

Conclusion - Response accepted.

II-K-08 Officiating Contracts - We noted during our audit that the Athletic Director was signing athletic officiating contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to comply with Chapter 291.1 of the Code of Iowa.

Response - We currently are having the Board President sign all officiating contracts.

Conclusion - Response accepted.